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PRIME MINISTER

SHIPBUILDING - EC NOTIFICATION OF UK SHIPBUILDING AID

Norman Tebbit sent me a copy of his minute of 22 December ^{with AT?} about notification to the EC of our proposals for aid to shipbuilding.

2. It is unfortunate that the question of a formal approach to the European Commission about the intensity of subsidy for UK shipbuilding has come up for consideration before we have had an opportunity to consider among ourselves the strategy for merchant shipbuilding in this country.

3. I do not want to pre-empt our future discussions, but even if we were to decide on a subsidy level of as much as 35 per cent per ship built (equivalent to 45 per cent after normal credit facilities have been made available), I suspect we would not do so without coupling it with a stringent programme for the reduction of such heavily loss-making activities. In these circumstances I am not happy about Norman's proposed approach to the Commission. It seems to me to run the risk of being interpreted as an open-ended request to suspend the present degressivity policy and to replace it for an unspecified period with subsidy levels exceeding even those of the mid-1970s.

4. I think we need to ask ourselves whether this is the lead we really wish to give to our European partners. It would also be highly embarrassing if it became known at home that we were taking this kind of position in Brussels. (In this connection I note too the suggestion in paragraph 8 of Norman's minute that we shall need to be prepared to mount a considerable Ministerial and inter-governmental campaign).

5. This all highlights the need for an early discussion of future policy for merchant shipbuilding among ourselves and I was pleased to see that Norman hopes to be in a position to put options to us by the end of January. In the meantime I would prefer, if possible, to avoid any approach to the Commission



and to deal with individual orders for ships on an ad hoc basis.

6. If, however, it were felt that some formal approach to the Commission has to be made, I would hope this could be much shorter and more low-key than what is at present proposed. We could make it clear that we were still formulating our strategy for rationalisation and that in the meantime we could not rule out the possibility of high levels of subsidy being needed in individual cases in order to obtain new orders against the current severe competition from the Far East. It would be essentially an interim statement rather than a fully-fledged proposal. I recognise that this may not be readily acceptable to the Commission. But, as Norman himself recognises, the present draft proposal is unlikely to find favour immediately either and I myself feel that a lower key approach would serve to keep open our options for the time being, while helping to reduce the amount of flank we expose.

7. I am sending copies of this minute to Norman Tebbit, and to other E(NI) colleagues, Geoffrey Howe, Jim Prior and Sir Robert Armstrong.

(N.L.)

9 January 1984

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